



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
STUDENT AID COMMISSION
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-431**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

431

FINANCIAL AUDIT REPORT
STUDENT AID COMMISSION
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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ASSEMBLYMEN
S. FLOYD MORI
DANIEL BOATWRIGHT
LEROY GREENE
BRUCE NESTANDE

□ STATE CAPITOL
SACRAMENTO 95814
(916) 445-7380

□ 925 L STREET
SUITE 750
SACRAMENTO 95814
(916) 445-0255

S. FLOYD MORI
CHAIRMAN

October 20, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's financial audit report of the Student Aid
Commission, year ended June 30, 1979.

The auditors are Richard I. LaRock, CPA; Jeffrey A. Winston;
and Patricia Duncan.

Respectfully submitted,

S. Floyd Mori

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Student Aid Commission. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The Student Aid Commission, which is composed of 11 members appointed by the Governor and confirmed by the Senate, administers these programs to offer students financial assistance:

- A grant program based upon financial need designed (a) to enable students to attend the California college of their choice and to encourage increased enrollment in private institutions, (b) to increase the availability of education in California colleges for disadvantaged students, and (c) to provide grants for students to train in skilled occupations;
- A fellowship program based upon financial need for graduate and professional students;

- A college education aid program based upon financial need for children of law enforcement officers who have been killed or permanently disabled in the line of duty;
- A grant program to prepare bilingual elementary and secondary classroom teachers.

For certain segments of these programs, the commission relies on the educational institutions to verify students' eligibility to receive financial assistance and to distribute the financial assistance funds to the eligible students.

The commission is responsible for collecting outstanding student loans made prior to November 1967, under the State Guaranteed Loan Program, administering a program of guaranteeing reinsured loans to undergraduates, graduates, and professional students, and a statewide program disseminating information about student financial aid. The commission also provides grants for supervised clinical training to U.S. citizens who have graduated from foreign medical schools and reports to the Legislature, the Governor, and postsecondary education institutions concerning certain aspects of student financial aid in California.

The commission's programs are supported by appropriations from the State's General Fund and by federal funds.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Student Aid Commission as of June 30, 1979 and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year then ended. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2, the commission did not maintain adequate records for equipment. The commission's records do not permit the application of adequate audit procedures regarding equipment.

As discussed in Note 10, the commission awards student financial assistance grants through the General Fund to eligible applicants on the basis of financial need. The commission computes financial need from financial data furnished by the applicant and the applicant's family. It was not practicable to satisfy ourselves with respect to such financial data beyond the amounts reported in the application.

In our opinion, except for the effects, if any, of the matter discussed in the preceding paragraph, the aforementioned financial statements present fairly the financial position of the Governmental and Fiduciary Fund Types of the Student Aid Commission as of June 30, 1979 and the results of operations and changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Since the commission did not maintain adequate equipment records and we were unable to apply adequate audit procedures regarding the equipment, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the General Fixed Assets Account Group.

The column amounts on the accompanying financial statements captioned "Totals - Memorandum Only" and the accompanying supplemental information are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Wesley E. Voss
WESLEY E. VOSS
Assistant Auditor General

Date: July 7, 1980

Staff: Richard I. LaRock, CPA
Jeffrey A. Winston
Patricia Duncan

STUDENT AID COMMISSION
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP

JUNE 30, 1979

	Governmental Fund Type	Fiduciary Fund Types		Account Group	Totals
	General Fund	Expendable Trust	Non- Expendable Trust	General Fixed Assets	(Memorandum Only)
<u>ASSETS</u>					
Cash	\$ 7,203	\$ 9,961	\$ 2	\$ --	\$ 17,166
Deposits in Surplus Money					
Investment Fund (Note 3)	--	1,233,000	244,400	--	1,477,400
Accounts receivable	99,702	--	--	--	99,702
Allowance for deferred and uncollectible accounts receivable	(90,671)	--	--	--	(90,671)
Notes receivable (Note 4)	--	1,537,418	--	--	1,537,418
Allowance for deferred and uncollectible notes receivable (Note 4)	--	(1,537,418)	--	--	(1,537,418)
Due from Surplus Money					
Investment Fund (Note 3)	--	53,474	10,847	--	64,321
Due from other funds (Note 5)	--	227,214	--	--	227,214
Prepayments to other funds	46,359	--	--	--	46,359
Expense advances to employees	3,611	--	--	--	3,611
Equipment (Note 2)	--	--	--	173,615	173,615
Total Assets	<u>\$ 66,204</u>	<u>\$ 1,523,649</u>	<u>\$255,249</u>	<u>\$173,615</u>	<u>\$ 2,018,717</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities:					
Accounts payable	\$ 5,274,986	\$ 11,163	\$ --	\$ --	\$ 5,286,149
Due to other funds (Note 6)	227,214	1,455,501	--	--	1,682,715
Uncleared collections	2,800	--	--	--	2,800
Total Liabilities	<u>5,505,000</u>	<u>1,466,664</u>	<u>--</u>	<u>--</u>	<u>6,971,664</u>
Fund Equity:					
Investments in general fixed assets (Note 2)	--	--	--	173,615	173,615
Fund balances:					
Reserved for endowments	--	--	200,000	--	200,000
Designated for grants	--	--	55,249	--	55,249
Undesignated	--	56,985	--	--	56,985
Operating clearing (Note 7)	(5,438,796)	--	--	--	(5,438,796)
Total Fund Equity	<u>(5,438,796)</u>	<u>56,985</u>	<u>255,249</u>	<u>173,615</u>	<u>(4,952,947)</u>
Total Liabilities and Fund Equity	<u>\$ 66,204</u>	<u>\$ 1,523,649</u>	<u>\$255,249</u>	<u>\$173,615</u>	<u>\$ 2,018,717</u>

The notes to the financial statements are an integral part of this statement.

STUDENT AID COMMISSION
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE AND OPERATING CLEARING

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u> <u>Expendable</u> <u>Trust</u>	<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>		
Revenues:			
Intergovernmental revenues (Note 8)	\$10,283,407	\$ --	\$10,283,407
Interest from Surplus Money	--	73,413	73,413
Investment Fund (Note 3)	6,448	--	6,448
Other revenues	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>10,289,855</u>	<u>73,413</u>	<u>10,363,268</u>
Other Sources:			
Appropriations (Note 9)	70,750,250	--	70,750,250
Refunds to reverted appropriations	11,838	--	11,838
Repayment loan principal	--	108,086	108,086
Repayment loan interest	--	29,838	29,838
Total Other Sources	<u>70,762,088</u>	<u>137,924</u>	<u>70,900,012</u>
Total Revenues and Other Sources	<u>81,051,943</u>	<u>211,337</u>	<u>81,263,280</u>
Expenditures:			
Current:			
Personal services	1,857,498	--	1,857,498
Operating expenses and equipment	1,232,369	--	1,232,369
Scholarships - Cal Grant A (Note 10)	51,755,955	--	51,755,955
College Opportunity Grants - Cal Grant B (Note 10)	20,481,177	--	20,481,177
Occupational Education and Training Grants - Cal Grant C (Note 10)	2,560,894	--	2,560,894
Fellowships for Graduate Study (Note 10)	2,410,296	--	2,410,296
Clinical Training Program (Note 10)	445,000	--	445,000
Dependents of Deceased or Disabled Peace Officers Program (Note 10)	8,500	--	8,500
Bilingual Crosscultural Teacher Development Grants (Note 10)	412,580	--	412,580
Interest (Note 6)	--	42,241	42,241
Collection costs	--	3,235	3,235
Expenditures reimbursed to the General Fund	(216,677)	216,677	--
Miscellaneous (Note 11)	(915,576)	50,099	(865,477)
Total Expenditures	<u>80,032,016</u>	<u>312,252</u>	<u>80,344,268</u>
Other Uses:			
Purchase of defaulted student loans	--	58,542	58,542
Intrafund transfers (Note 7)	462,806	--	462,806
Total Other Uses	<u>462,806</u>	<u>58,542</u>	<u>521,348</u>
Total Expenditures and Other Uses	<u>80,494,822</u>	<u>370,794</u>	<u>80,865,616</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>557,121</u>	<u>(159,457)</u>	<u>397,664</u>
Fund Balance - July 1 - as previously reported	--	266,442	266,442
Restatement:			
Correction of prior period errors	--	(50,000)	(50,000)
Fund Balance - July 1 - as restated	--	216,442	216,442
Operating Clearing - July 1 (Note 7)	(5,995,917)	--	(5,995,917)
Fund Balance - June 30	--	56,985	56,985
Operating Clearing - June 30 (Note 7)	<u>\$ (5,438,796)</u>	<u>\$ --</u>	<u>\$ (5,438,796)</u>

The notes to the financial statements are an integral part of this statement.

STUDENT AID COMMISSION
STATEMENT OF CHANGES IN FUND BALANCE
NONEXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Fund Balance - July 1	\$234,851
Additions:	
Interest from Surplus Money	
Investment Fund	<u>20,398</u>
Fund Balance - June 30	<u><u>\$255,249</u></u>

The notes to the financial statements are an integral part of this statement.

STUDENT AID COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the Student Aid Commission. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting. Note 2 relates to the accounting policies of the General Fixed Assets Account Group.

The accompanying financial statements are structured into the Governmental Fund Type, the Fiduciary Fund Types, and an Account Group. The Student Aid Commission accounts for only its portion of the two fund type categories. The State Controller maintains central accounts for all state funds and annually publishes fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund is the only Governmental Fund Type used by the commission.

General Fund

The General Fund includes all financial resources not accounted for in another fund.

The Governmental Fund Type is maintained on the modified accrual basis of accounting. These are some of its more significant elements:

Income

Income from revenues and reimbursements is recognized in the accounting period in which it is measurable and available to pay liabilities of the period.

Expenditures

Expenditures are recognized, if measurable, in the accounting period in which the liability is incurred.

Liabilities

Retirement Plan - Regular employees of the commission are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the commission and its employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The commission's share of retirement contributions for the year totaled \$218,954.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time these benefits are used rather than when they are earned.

FIDUCIARY FUND TYPES

Fiduciary Fund Types are used to account for assets held by a governmental unit as a trustee or as an agent for individuals or private organizations. These are included in the Fiduciary Fund Types:

State Guaranteed Loan Reserve Fund

The commission maintains records of the State Guaranteed Loan Reserve Fund to account for all monies received for guaranteeing loans to college students and reimbursements to lending institutions for defaulted student loans. The State's total legal obligations for loans guaranteed under this fund are limited to the amount in the fund. This fund is accounted for as an expendable trust fund. Revenues and expenditures are presented on the same modified accrual basis of accounting as used for the commission's Governmental Fund Type.

Special Deposit Fund

The commission maintains its portion of the Special Deposit Fund to account for a \$200,000 endowment from the Real Estate Fund. Interest earned from the endowment is used to provide scholarships to eligible students enrolled in programs related to a real estate career in the California State University and Colleges. No scholarships were awarded for the fiscal year ending June 30, 1979.

The commission accounts for its portion of the fund as a nonexpendable trust fund. Revenues and expenditures are accounted for on the accrual basis of accounting.

2. GENERAL FIXED ASSETS ACCOUNT GROUP ACCOUNTING POLICIES AND PRACTICES

The General Fixed Assets Account Group is used to account for equipment. Assets purchased, except for those acquired under an installment purchase contract (as explained in Note 12), are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance.

The commission has not maintained current property cards or a general ledger account for property. Also, the commission did not reconcile the last physical inventory of equipment to the property cards or the general ledger; the inventory listing was not retained for audit purposes. Reported equipment is valued at cost or at fair market value at the time of acquisition if cost cannot be determined.

3. DEPOSITS IN SURPLUS MONEY INVESTMENT FUND

This account includes temporary cash reserves of commission funds transferred to the Surplus Money Investment Fund for cash flow and pooled investment purposes. Earnings derived from investments of the Surplus Money Investment Fund are apportioned to the contributing funds in proportion to the cash resources each fund provided during the period. Interest due from the Surplus Money Investment Fund is accrued at June 30, 1979.

4. NOTES RECEIVABLE

The balance in the State Guaranteed Loan Reserve Fund represents the amount of principal and interest due from students on notes purchased from lending institutions. These notes were purchased because students defaulted on their loans.

5. DUE FROM OTHER FUNDS

The balance in the State Guaranteed Loan Reserve Fund of \$227,214 represents transfers to the General Fund in excess of expenditures incurred or accrued by the General Fund for the State Guaranteed Loan Reserve Fund.

6. DUE TO OTHER FUNDS

The balance in the General Fund of \$227,214 represents transfers from the State Guaranteed Loans Reserve Fund in excess of the expenditures incurred and accrued by the General Fund for the State Guaranteed Loan Reserve Fund.

Chapter 1201, Statutes of 1977, authorized the commission to serve as a state student loan guarantee agency for the Federal Guaranteed Student Loan Program pursuant to the federal education amendments of 1976. This legislation also provided to the commission a \$2 million General Fund loan for expenditures in fiscal years 1977-78, 1978-79, and 1979-80.

The balance in the State Guaranteed Loan Reserve Fund represents the principal amount transferred from the General Fund of \$1,413,260 and accrued interest of \$42,241. Principal, along with interest at the rate earned on funds deposited in the Pooled Money Investment Fund, shall be repaid to the General Fund by June 30, 1986.

7. OPERATING CLEARING AND INTRAFUND TRANSFERS

Operating Clearing is the connecting link between the records of the commission and the central fund accounts of the State Controller for the General Fund. The balance at June 30 represents the net assets and liabilities for which the commission is accountable.

Intrafund transfers represent revenues, reimbursements, and refunds to reverted appropriations for which the commission transferred accountability to the State Controller.

8. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues consist of \$10,236,372 in receipts from federal grants that increased either the amount or number of financial aid grants. These revenues also comprise \$47,035 in receipts of federal funds.

9. APPROPRIATIONS

Funds provided from appropriations consist of cash disbursed by the State Controller from the commission's appropriations for the year ended June 30, 1979 and liquidation of expenditures accrued against appropriations for prior periods.

10. FINANCIAL ASSISTANCE GRANTS

General Fund expenditures for the various financial assistance programs total \$78,074,402. Financial assistance is awarded to eligible applicants who demonstrate a financial need. Financial need is based upon the difference between the cost of attending the educational institution and the amount that the applicant and the applicant's family can contribute to meet the applicant's expenses. The family contribution is calculated according to a formula which adjusts the family financial data reported in the application. The commission has not verified the financial data reported to calculate the family contribution.

11. MISCELLANEOUS EXPENDITURES

Miscellaneous expenditures consist of the difference between expenditures, abatements, and reimbursements accrued as of June 30, 1978 and the actual amounts received, incurred, or accrued in the year ended June 30, 1979 applicable to appropriations for prior periods.

12. INSTALLMENT PURCHASE CONTRACT

A portion of the general fixed assets was acquired under an installment purchase contract. At June 30, 1979 the unpaid balance was \$44,983; this balance, along with 11 percent interest on the unpaid balance, is payable in the next three fiscal years.

SUPPLEMENTAL INFORMATION

In this section, we present a comparison of the legally adopted budget with actual data on the budgetary basis.

The State's annual budget represents departmental appropriations as authorized by the Budget Act of 1978 and any authorized revisions that reflect changes in programs and activities during the year. The State's annual budget does not include operations of the State Guaranteed Loan Reserve Fund, the commission's accounts in the Special Deposit Fund, and certain accounts in the General Fund. Accordingly, the budgetary comparison reflects only budgeted General Fund accounts of the commission.

STUDENT AID COMMISSION

COMPARISON OF THE LEGALLY ADOPTED BUDGET WITH ACTUAL DATA ON THE BUDGETARY BASIS GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as Adjusted</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
For support of Student Aid Commission:			
Personal services	\$ 2,046,527	\$ 1,857,498	\$ 189,029
Operating expenses and equipment	1,518,514	1,232,369	286,145
Less reimbursement from the State Guaranteed Loan Reserve Fund	<u>(443,891)</u>	<u>(216,677)</u>	<u>(227,214)</u>
Total Support	<u>3,121,150</u>	<u>2,873,190</u>	<u>247,960</u>
For Awards in the Cal Grant Program:			
Scholarships	54,983,836	51,755,955	3,227,881
College Opportunity Grants	20,491,976	20,481,177	10,799
Occupational Education and Training Grants	3,218,314	2,560,894	657,420
Less federal funds (Intergovernmental Revenues)	<u>(10,266,372)</u>	<u>(10,283,407)</u>	<u>17,035</u>
Total Awards in the Cal Grant Program	<u>68,427,754</u>	<u>64,514,619</u>	<u>3,913,135</u>
For Grant and Graduate Fellowship Awards:			
Fellowships for Graduate Study	2,598,000	2,410,296	187,704
Clinical Training Program	500,000	445,000	55,000
Dependents of Deceased or Disabled Peace Officers Program	15,000	8,500	6,500
Bilingual Crosscultural Teacher Development Grants	<u>415,000</u>	<u>412,580</u>	<u>2,420</u>
Total Grant and Graduate Fellowship Awards	<u>3,528,000</u>	<u>3,276,376</u>	<u>251,624</u>
Total	<u>\$75,076,904</u>	<u>\$70,664,185</u>	<u>\$4,412,719</u>

OTHER COMMENTS

As an integral part of our examination, we reviewed the commission's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the commission's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the commission in conjunction with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The commission generally concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
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